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Worksheets

Module Two: Worksheet 1- Stops and Spreads in Level 2



- The Powerpoint worksheet below will help you learn how to set and keep track of your stops correctly using Level 2
- You should use both the 1-minute intraday chart support level And Level 2 to set your trading stops.
- Use Level 2 to determine the best stop by looking at the size of the bids at each price level:

1. It is usually best to set your initial stops no more than 3-4 spreads away from the current market.
2. Using the price spread on Level 2 that the "ax" trades at should give you an idea as to the trade potential. Eg, if SBSH is the ax trading AMZN and his Bid is 82 1/2 Ask 84 5/8 that tells you that your trade potential should be roughly 2 points, assuming you bought where the ax did on an uptrend.
3. If the bid levels start to shrink and T&S shows a string of trades going off at the bid, then sellers are in control and you should exit the position immediately.
4. If the trade is wiggling within a 2-3 spread range then watch T&S to see if a trend develops, if it doesn't then get out of the trade if the market (\$COMPQ, sector index) starts to go down.
5. If the trade goes your direction and more buyers come in, **set a trailing stop 2-3 spreads away from the inside market.**

POP QUIZ Question #1: Ok here's DELL, you just got filled on ISLD at 53 9/16 and SBSH is the ax. Where's your stop?

My stop is set at:

- A) I don't have one, DELL is a good company
- B) 53 9/16
- C) 53 3/4
- D) 53 3/8
- E) A and D above

Bonus Q: How wide is SBSH's "trade box"?

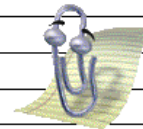
DELL	-	53 9/16	b	53 9/16	a	53 5/8	20 x 30	36.1M	14:55
MMID	Bid	B...	MMID	Ask	A...				
ISLD	53 9/16	20	ARCA	53 5/8	30			53 9/16	100
INCA	53 9/16	14	ISLD	53 5/8	30			53 5/8	1.00K
ARCA	53 9/16	10	NTRD	53 5/8	10			53 5/8	300
BEST	53 9/16	10	INCA	53 11/16	10			53 9/16	100
NITE	53 9/16	5	NFSC	53 11/16	10			53 5/8	700
MWSE	53 1/2	54	NITE	53 11/16	5			53 5/8	300
SBSH	53 1/2	10	REDI	53 11/16	2			53 9/16	100
SHWD	53 1/2	10	PIPR	53 11/16	1			53 5/8	1.00K
RAMS	53 1/2	10	BTRD	53 3/4	214				
DEAN	53 1/2	10	MLCO	53 3/4	22				
MSCO	53 1/2	10	SHWD	53 3/4	10				
MADF	53 1/2	2	WARR	53 3/4	10				
SLKC	53 7/16	10	SBSH	53 3/4	8				
DLIP	53 3/8	10	PERT	53 3/4	7				

POP QUIZ Question #2: Here's AMZN, you bought at 91 13/16 and MLCO's the ax. Where's your stop?

- A) 92 1/4
- B) 90
- C) 91 1/2
- D) I don't have one, I like AMZN

(Answers at bottom of this page)

AMZN	-	91 7/8	b	91 7/8	a	92	10 x 27	10.5M	14:50
M...	Bid	B...	M...	Ask	A...				
INCA	91 7/8	10	ISLD	92	22			91 7/8	200
MWSE	91 7/8	1	ARCA	92	12			92	100
ISLD	91 13/16	6	MASH	92	10			92	100
MASH	91 3/4	2	BRUT	92	6			92	400
NFSC	91 3/4	1	INCA	92 1/16	10			92	900
MADF	91 3/4	1	DKNY	92 1/16	1			92	100
REDI	91 9/16	5	REDI	92 1/8	2			92	100
SELZ	91 9/16	1	MLCO	92 1/4	9			91 15/16	600
JPMS	91 1/2	1	MWSE	92 1/4	5			91 15/16	100
COWN	91 1/2	1	SLKC	92 1/4	1			92	100
SLKC	91 7/16	1	MONT	92 1/4	1			91 15/16	100
MSCO	91 1/8	10	NITE	92 1/2	20			92	100
KTRK	91 1/8	5	MADF	92 1/2	11			91 63/64	200



Pop Quiz answers: For DELL, your initial stop should be set at **D)** 53 3/8 (or even a spread higher). DELL SSSH Trade Box is 53 1/2 x 53 3/4, only 1/4 point. For AMZN, your stop should be set at **C)** 91 1/2.

Module Two

Comprehensive Level 2 Trading Techniques:

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Worksheets

Module Two: Worksheet 2- Market Maker Headfake Plays

- The Powerpoint worksheet below will help you learn how to avoid being taken advantage of by mm "headfake"-type trading



1. **I want you to develop an experienced, practiced eye for suspicious market maker activity** in this exercise. You will be examining your L2/T&S for the following

- Acting like a buyer when they're really selling
- Posting fake bid sizes to give the illusion of buying or selling support
- Flipping from the bid to the ask/vice-versa or fading back 2-3 spreads

2. Your primary guide will be "how strong and consistent is this trader's buying vs selling" as confirmed by a) the **length of time** he stays at the bid/ask in the face of buying/selling and b) the trades you see executed in the **time and sales** window.

3. Your objective is to learn to avoid getting suckered into "bull traps" and "bear traps" (making it look like there's buying/selling when there really isn't) and to better anticipate market maker direction

You should use this worksheet (or a similar one you make yourself) to help develop your skills to correctly identify and avoid the most common and costly market maker headfakes that professional traders use:

Directions:

1. For one trading day, Choose 3 stocks to follow intensely and look at nothing but the L2 and T&S for them
2. Whenever you see one of the "market maker headfakes" that we described above, make a note of it on the chart and identify the Real Pivot (top/bottom) that the stocks drops to or gains to
3. For each of these headfakes, I want you to jot down a brief note that describes what "warning signals" were there, if any, that you could've / should've seen to help you keep out of the trade.
4. If you were wrong (it looked like a headfake but wasn't), identify why, and what you could've done differently to capitalize on that particular trading situation.

[illegible]

Worksheets

Module Two: Worksheet 3 - Graphs, T & S and Level 2

- The Powerpoint worksheet below will help you learn how to integrate all 3 sets of indicators: 1-minute graphs, T&S and Level 2 into your daytrading skill set.



- Remember that you only want to risk your cash on "high-percentage daytrades", where several indicators line up, like the elevation and windage in a rifle scope, to give you an achievable target trade.
- This worksheet will help you develop the discipline needed to complete a "mental checklist" of things to identify correctly before entering a trade.

Use this worksheet (or a similar one you make yourself) to help develop your skills to integrate all 3 sets of indicators prior to buying (or shorting) a stock:

Directions:

- For one trading day, Choose 1 stock with good volume and volatility (over 1M/day volume and 5%+ intraday trading range) to follow intensely and look at the L2 window, T&S and 1-minute chart for.
- You will be searching for when the technical indicators, L2 And T&S all tell you the stock is a buy.
- Enter the details for Why each of these 3 indicators told you it was a buy, along with the actual price you would buy the stock at. (this is a papertrading activity)
- Enter the stop you would set for the stock based on your 1-minute chart support level (or 3 spreads down from the buy price, whichever is smaller).
- Finally, enter where you would have sold the stock at. NOTE: Your Exit criteria (when you sell/cover) can be based on something looking bad (an "early warning sign") in Any of the 3 indicators; your Buy criteria, however, should be when all 3 look good at the same time.

Screensnap: Worksheet 3 - [Click here to d/l Powerpoint worksheet file \(43 K\)](#)



Level 2 Combination Daytrading Worksheet		Goal: Improve my ability to identify when to buy based on all 3 indicators (L2, T&S, 1-min chart)
Stock Ticker: _____		
What do you see Right Now that tells you it's a "Buy" using this indicator?		
The 3 Indicators:		Are All 3 Indicating It's a "Buy"? Yes _____ No _____ Notes: _____
1-Minute Chart:		
Time & Sales:		Price You Bought the Stock at: _____ Price You'd Sell the Stock at: _____
Level 2:		Did you Sell too Soon or too Late? (circle which one) (Note: you may nail the exact pivot 1 time out of 8. If you're lucky, don't worry about it for now.)

Worksheets

Module Two: Worksheet 4 - Shadowing the Ax - Recognizing and trading with the Market Maker Buyer



- The Powerpoint worksheet below will help you learn how to follow the lead market maker (ax) who is buying stock at a given point in time.
- This worksheet will help you figure out how to recognize net buying activity by a major market maker and to profit from this activity. You should buy a stock when you see a market maker buying in the face of weaker selling pressure, as the price will rise.

Use this worksheet (or a similar one you make yourself) to help develop your skills to "jump on board the train" and buy stock when a major player (mm ax) is also buying, so you can ride the momentum up for profit:

Directions:

1. **STOCK SELECTION:** Choose one stock you're familiar with and first determine if the stock is in a 5-day uptrend, downtrend, or flat and choppy (indeterminate) trend. You want to find a stock that's breaking above a key resistance level, not a stock that's in a downtrend (no bottom fishing for this technique, when you're first learning).
2. **MARKET MAKER AX RECOGNITION:** Next, Using your Level 2 window and Time & Sales, during the time period of 9:45 till 10:45, pick out "3 favorites" that you suspect may be the ax for the stock during that time period. Try and narrow it down to one market participant; learn how to spot who's buying it up.
3. What should you look for? See if, in T&S, you see either: trades going off at the bid and one mm is "holding the price up", or, preferably, you see the mm jumping up to the inside bid repeatedly as the price moves up several points, eg you see a major market maker "**chasing the stock**" on the inside bid.
4. **DAYTRADE PLAY & TRADE MANAGEMENT:** Ok, you think you know who is a buyer of the stock; let's now use that to profit. In the worksheet below, your papertrade exercise here is to see "how right you would have been", had you followed that ax in the trade. Mimic the mm ax's behavior, eg buy as he's buying, sell when he either drops away from the inside bid by a couple of levels or flips to the ask. How would you trade the stock based on what you're seeing?

"Shadowing the Ax: When is he Buying?"

Goal: Improve my ability to identify when a market maker is buying stock so I can duplicate his trading for personal profit

Stock Ticker: _____

Which of the following market makers do you think is doing the most buying of this stock during a given 10-20 minute timeframe (one of the 'waves' in trading activity from 9:45-10:45)?

- ___ SBSH
- ___ GSCO
- ___ MLCO
- ___ MSCO
- ___ MASH
- ___ DEAN
- ___ HRZG
- ___ SHWD
- ___ PWJC
- ___ SLKC
- ___ DEAN
- ___ MADF
- ___ BEST
- ___ Other: _____

Notes: Remember, this works best for stocks that aren't as heavily traded on ECNs (eg ISLD, ARCA INCA). Also, pick a moderate-volume stock (600K-2M/day) priced from \$15-\$80 that's breaking thru a key resistance level or is in a steady uptrend.

At what Price did you see the mm **start to buy more** of the stock at? When?

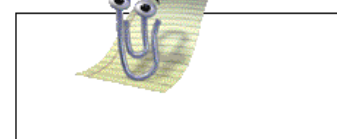
Your Daytrading Activity:

How would you trade the stock based on this "buy pattern"? Would you join him at the bid, bid a teeny or 32nd more, or pay retail (inside ask) for it?

How many shares of the stock would you buy? 100? 200? 300? 500? 1000? 2K or more?

At what Price did you see the mm **stop buying** the stock at? When?

Once you see the market maker stop buying, how do you trade it? Do you exit the entire position immediately, do you wait, or do you scale out of the position (eg sell half now and wait)?



Did you Sell **too Soon** or **too Late?** (circle which one)

What's your Net Profit/Loss from the trade?

\$